

**TWIN CEDARS COMMUNITY SCHOOL DISTRICT
BUSSEY, IOWA**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

June 30, 2011

**Peak & Co., LLP
Certified Public Accountants
1370 NW 114th St., Suite 205
Clive, IA 50325**

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Twin Cedars Community School District

Officials

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
<u>Board of Education</u>		
Zack Dunkin	President	2011
Kelly Carlson	Vice-President	2011
Deb Haselhuhn *	Board Member	2013
Steve Gilkerson	Board Member	2013
Steve Hoehns	Board Member	2011

<u>School Officials</u>		
Brian Vandersluis	Superintendent	2011
Lana Dunkin **	District Secretary/ Treasurer/Business Manager	Indefinite
Deb Haselhuhn ***	District Secretary/ Treasurer/Business Manager	Indefinite
Ahlers Law Firm	Attorney	Indefinite

* - Resigned in June, 2011. At June 30, 2011, this position was vacant.

** - Resigned in June, 2011.

*** - Appointed in June, 2011.

Twin Cedars Community School District

PEAK & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS
1370 NW 114TH ST., SUITE 205
CLIVE, IA 50325

(515) 277-3077

Independent Auditor's Report

To the Board of Education of
Twin Cedars Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Twin Cedars Community School District, Bussey, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Twin Cedars Community School District at June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U. S. generally accepted accounting principals.

In accordance with Government Auditing Standards, we have also issued our report dated January 31, 2012, on our consideration of Twin Cedars Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 41 through 43 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Twin Cedars Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report of this report, the financial statements for the seven years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Peak & Co., LLP
Certified Public Accountants

January 31, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Twin Cedars Community School District provides this Management Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$3,923,884 in fiscal 2010 to \$4,231,747 in fiscal 2011, while General Fund expenditures increased from \$4,219,911 in fiscal 2010 to \$4,379,016 in fiscal 2011. The District's General Fund balance decreased from \$647,408 at the end of fiscal 2010 to \$500,139 at the end of fiscal 2011, a 22.75% decrease. Two factors contributing to the General Fund balance decrease is the fact that the District spent categorical fund balance that could not be used for any other purpose than what it was designated, as well our districts ever-continuing declining enrollment.
- The District continues to make significant improvements to its facilities from the use of PPEL funds and Marion and Mahaska County Local Option Sales Tax revenues. The District did not levy any Debt Service funds from property tax, but rather paid the obligations using the L.O.S.T. revenues.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Twin Cedars Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how government services were financed in the short term as well as what remains for future spending. Fund financial statements report Twin Cedars Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Other Supplementary Information provides detailed information about the non-major governmental funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Twin Cedars Community School District Annual Financial Report

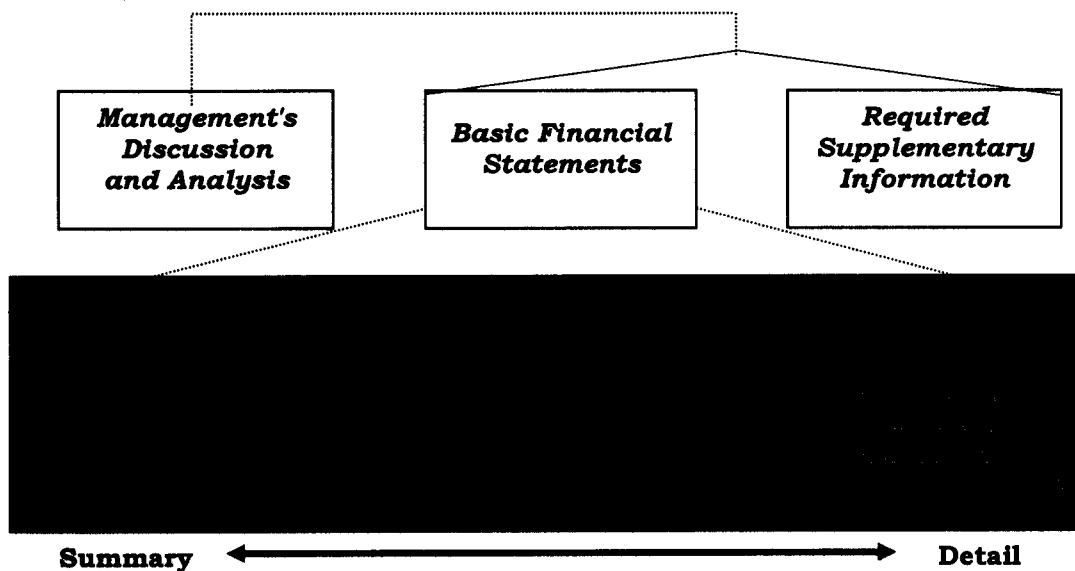


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services	
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are

one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and the Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2011 compared to June 30, 2010.

Figure A-3 Condensed Statement of Net Assets (Expressed in Thousands)							
	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-2011
Current and other assets	\$ 2,887	2,862	92	78	2,979	2,940	1.3%
Capital assets	2,548	2,595	63	62	2,611	2,657	-1.7%
Total assets	5,435	5,457	155	140	5,590	5,597	-0.1%
Long-term liabilities	716	674	14	7	730	681	7.2%
Other liabilities	1,834	1,672	2	2	1,836	1,674	9.7%
Total liabilities	2,550	2,346	16	9	2,566	2,355	9.0%
Net assets							
Invested in capital assets							
net of related debt	2,118	2,050	63	62	2,181	2,112	3.3%
Restricted	511	541	-	-	511	541	-5.5%
Unrestricted	256	520	76	69	332	589	-43.6%
Total net assets	\$ 2,885	3,111	139	131	3,024	3,242	-6.7%

The District's combined net assets decreased by nearly 6.7%, or approximately \$218,000, under the prior year. A large portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$30,000, or 5.5% from the prior year. The decrease was primarily a result of spending more of the balances in the categorical funds in fiscal year 2011 compared to fiscal year 2010.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$257,000, or 43.6%. This decrease in unrestricted net assets was the result of the District using carryover fund balance to meet

its financial obligations during the year, and the result of the District's net OPEB liability large increase in the current year.

Figure A-4 shows the changes in net assets for the year ended June 30, 2011 compared to the year ended June 30, 2010.

Figure A-4 Changes in Net Assets (Expressed in Thousands)							
	Governmental Activities		Business type Activities		Total District		Total Change
	2011	2010	2011	2010	2011	2010	2010-2011
Revenues:							
Program revenues:							
Charges for service	\$ 485	559	107	114	592	673	-12.0%
Operating grants, contributions and restricted interest	663	918	125	128	788	1,046	-24.7%
Capital grants, contributions and restricted interest	1	1	-	-	1	1	0.0%
General revenues:							
Property tax	1,255	1,172	-	-	1,255	1,172	7.1%
Income surtax	84	92	-	-	84	92	-8.7%
Statewide sales, services and use tax	294	244	-	-	294	244	20.5%
Unrestricted state grants	1,844	1,542	-	-	1,844	1,542	19.6%
Unrestricted investment earnings	2	2	-	-	2	2	0.0%
Other	154	39	-	-	154	39	294.9%
Total revenues	4,782	4,569	232	242	5,014	4,811	4.2%
Program expenses:							
Governmental activities:							
Instruction	3,303	3,212	-	-	3,303	3,212	2.8%
Support services	1,444	1,317	-	-	1,444	1,317	9.6%
Non-instructional programs	1	1	224	230	225	231	-2.6%
Other expenses	260	338	-	-	260	338	-23.1%
Total expenses	5,008	4,868	224	230	5,232	5,098	2.6%
Increase (decrease) in net assets	(226)	(299)	8	12	(218)	(287)	24.0%
Net assets beginning of year	3,111	3,410	131	119	3,242	3,529	-8.1%
Net assets end of year	\$ 2,885	3,111	139	131	3,024	3,242	-6.7%

In fiscal 2011, property tax and unrestricted state grants account for 64.8% of the revenue from governmental activities while charges for service and operating grants and contributions account for 100.0% of the revenue from the business type activities.

The Districts total revenues were approximately \$5.0 million of which \$4.8 million was for governmental activities and approximately \$232,000 was for business type activities.

As shown in figure A-4, the District as a whole experienced a 4.2% increase in revenues and a 2.6% increase in expenses. The increase in expenses was primarily due to an increase in salaries and benefits for employees, and increased cost of educational materials and energy costs.

Governmental Activities

Revenues for governmental activities were \$4,782,399 and expenses were \$5,008,100 for the year ended June 30, 2011. In a different budget year, the District was able to balance the budget by trimming expenses to match available revenues, and using carryover fund balance to finance the deficit.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses, for the year ended June 30, 2011 compared to the year ended June 30, 2010.

Figure A-5 Total and Net Cost of Governmental Activities (Expressed in Thousands)						
	Total Cost of Services			Net Cost of Services		
	2011	2010	Change 2010-2011	2011	2010	Change 2010-2011
Instruction	\$ 3,303	3,212	2.8%	2,322	1,898	22.3%
Support services	1,444	1,317	9.6%	1,439	1,316	9.3%
Non-instructional programs	1	1	0.0%	1	1	0.0%
Other expenses	260	338	-23.1%	97	176	-44.9%
Totals	\$ 5,008	4,868	2.9%	3,859	3,391	13.8%

For the year ended June 30, 2011:

- The cost financed by users of the District's programs was \$485,218. This is mainly open enrollment and Special Education tuition in revenue.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$662,912.
- The net cost of governmental activities was financed with \$1,633,705 in property and other tax, including local option sales and services tax, and \$1,843,538 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$232,218 representing a 4.36% decrease under the prior year while expenses totaled \$224,816, a 2.51% decrease under the prior year. The District's business type activities include the School Nutrition Fund. Revenues for these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, Twin Cedars Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$965,267, below last year's ending fund balances of \$1,112,132. The fund balance decrease is primarily due to deficit spending in the General Fund.

Governmental Fund Highlights

- The District's General Fund financial position is the result of many factors. We have attempted to match revenues with expenditures in order to avoid deficit spending. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures, requiring the District to use carryover fund balance to meet its financial obligations during the year. The staff and administration have worked hard to keep costs to a minimum while still offering our students the best education possible. The impact of declining enrollment is beginning to have an effect on the General Fund balance.
- The General Fund balance decreased by 22.75% from \$647,408 to \$500,139. The impact of declining enrollment is beginning to have an effect on the General Fund balance as well as spending one time categorical monies.
- The Capital Projects Fund balance increased by \$13,711 from fiscal 2010 to fiscal 2011. The District has not been levying the entire amount allowed and has elected to use existing fund balances from PPEL and LOST to fund projects and improvements.
- The Debt Service Fund Balance increased \$1,154 due to the District transferring monies in from LOST funds to pay for Debt Service. Debt Service Funds are categorical and can not be used for any other purpose but to pay debt service. In FY 2011 the District levied \$0 property tax dollars for Debt Service.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$131,480 at June 30, 2010 to \$138,882 at June 30, 2011. The District has worked hard to not stockpile supplies and to be efficient in the preparation and serving of the food. We hope through the continued use of sound purchasing practices we are able to keep the costs down.

BUDGETARY HIGHLIGHTS

The District's revenues were \$62,814 less than budgeted revenues, a variance of 1.24%. The most significant variance resulted from the District receiving more money from federal sources than originally anticipated, but less money from the State of Iowa.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2011, the District had invested \$2.548 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 1.7% from last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$196,161 for both governmental and business type activities.

The original cost of the District's capital assets was \$5.7 million. Governmental funds account for \$5.6 million, with the remainder of \$0.1 million accounted for in the Proprietary, School Nutrition Fund.

During the year, the major increases in assets were the costs incurred to perform building repairs, renovations and facility improvements, and new vehicles and equipment.

Figure A-6
Capital Assets, net of Depreciation
(Expressed in Thousands)

	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-2011
Land	\$ 22	22	-	-	22	22	0.0%
Buildings	1,156	1,214	-	-	1,156	1,214	-4.8%
Improvements other than buildings	855	868	-	-	855	868	-1.5%
Furniture and equipment	515	491	63	62	578	553	4.5%
Totals	\$ 2,548	2,595	63	62	2,611	2,657	-1.7%

Long-Term Debt

At June 30, 2011, the District had \$730,732 in general obligation, revenue and other long-term debt outstanding. This represents an increase of approximately 7.2% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

Figure A-7
Outstanding Long-term Obligations
(Expressed in Thousands)

	Total District		Total Change
	June 30,		June 30,
	2011	2010	2010-2011
General obligation bonds	\$ 220	285	-22.8%
Revenue bonds	210	260	-19.2%
Early retirement	59	11	436.4%
Compensated absences	6	6	0.0%
Net OPEB liability	235	119	97.5%
Totals	\$ 730	681	7.2%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District experienced a decrease in enrollment by 30 students in the fall of 2011. The District has gone from serving 502 students in 2006 to 400 in 2011, a decrease of 102 students over the past five years. This will negatively affect our General Fund balances in the future.
- The District has taken measures to maintain the current facilities. Improvements to the gym, outdoor athletic facilities, exterior and interior doors, some flooring and work done on the driveway and parking lot were completed. The District has continued to improve its equipment and we have replaced the roof at the High School Building and Elementary gym. Monies for these improvements came from Local Option Sales Tax and PPEL Funds. Several projects remain to be completed in the upcoming year to get the District's facilities to a level of acceptance.
- Fiscal 2011 negotiations with the Twin Cedars Education Association for the 2010-11 school year took more money than the new monies received by the Twin Cedars Community School District. The District will negotiate a new agreement during fiscal 2011 for the 2011-2012 school year. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance. Because of the District's decline in enrollment over the past five years, this will significantly impact General Fund balances. As the district has had teachers retire we have attempted to reduce staff through attrition.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Brian VanderSluis, Superintendent, Twin Cedars Community School District, 2204 HWY G71, Bussey, Iowa, 50044.

Basic Financial Statements

Statement of Net Assets

June 30, 2011

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,295,581	83,845	1,379,426
Receivables:			
Property tax:			
Delinquent	30,676	-	30,676
Succeeding year	1,336,406	-	1,336,406
Accounts	2,601	-	2,601
Due from other funds	1,623	-	1,623
Due from other governments	220,667	-	220,667
Inventories	-	7,135	7,135
Prepaid expenses	-	1,370	1,370
Capital assets, net of accumulated depreciation	2,547,708	62,429	2,610,137
Total assets	5,435,262	154,779	5,590,041
Liabilities			
Accounts payable	6,915	-	6,915
Salaries and benefits payable	412,334	-	412,334
Due to other governments	34,505	-	34,505
Due to other funds	-	1,623	1,623
Accrued interest payable	5,225	-	5,225
Deferred revenue:			
Succeeding year property tax	1,336,406	-	1,336,406
Other	37,793	-	37,793
Unearned revenue	-	252	252
Long-term liabilities:			
Portion due within one year:			
General obligation bonds	70,000	-	70,000
Revenue bonds	50,000	-	50,000
Early retirement	13,644	-	13,644
Compensated absences	6,325	-	6,325
Portion due after one year:			
General obligation bonds	150,000	-	150,000
Revenue bonds	160,000	-	160,000
Early retirement	45,195	-	45,195
Net OPEB liability	221,546	14,022	235,568
Total liabilities	2,549,888	15,897	2,565,785
Net assets			
Invested in capital assets, net of related debt	2,117,708	62,429	2,180,137
Restricted for:			
Categorical funding	17,830	-	17,830
Management levy purposes	59,883	-	59,883
Physical plant and equipment	90,069	-	90,069
School infrastructure	243,266	-	243,266
Student activities	36,799	-	36,799
Debt service	63,860	-	63,860
Unrestricted	255,959	76,453	332,412
Total net assets	\$ 2,885,374	138,882	3,024,256

See notes to financial statements.

Twin Cedars Community School District

Exhibit B

Statement of Activities

Year ended June 30, 2011

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions / Programs:							
Governmental activities:							
Instruction:							
Regular instruction	\$ 1,952,495	333,541	343,430	-	(1,275,524)	-	(1,275,524)
Special instruction	582,310	19,176	141,893	-	(421,241)	-	(421,241)
Other instruction	768,864	132,501	10,776	-	(625,587)	-	(625,587)
	<u>3,303,669</u>	<u>485,218</u>	<u>496,099</u>	<u>-</u>	<u>(2,322,352)</u>	<u>-</u>	<u>(2,322,352)</u>
Support services:							
Student	125,817	-	-	-	(125,817)	-	(125,817)
Instructional staff	134,078	-	-	-	(134,078)	-	(134,078)
Administration	452,530	-	-	-	(452,530)	-	(452,530)
Operation and maintenance of plant	435,432	-	-	-	(435,432)	-	(435,432)
Transportation	296,101	-	5,077	-	(291,024)	-	(291,024)
	<u>1,443,958</u>	<u>-</u>	<u>5,077</u>	<u>-</u>	<u>(1,438,881)</u>	<u>-</u>	<u>(1,438,881)</u>
Non-instructional programs	752	-	-	-	(752)	-	(752)
Other expenditures:							
Facilities acquisition	19,670	-	-	749	(18,921)	-	(18,921)
Long-term debt interest	20,016	-	2	-	(20,014)	-	(20,014)
AEA flowthrough	161,734	-	161,734	-	-	-	-
Depreciation (unallocated)*	58,301	-	-	-	(58,301)	-	(58,301)
	<u>259,721</u>	<u>-</u>	<u>161,736</u>	<u>749</u>	<u>(97,236)</u>	<u>-</u>	<u>(97,236)</u>
Total governmental activities	5,008,100	485,218	662,912	749	(3,859,221)	-	(3,859,221)
Business type activities:							
Non-instructional programs:							
Food service operations	224,816	106,948	125,075	-	-	7,207	7,207
Total	<u>\$ 5,232,916</u>	<u>592,166</u>	<u>787,987</u>	<u>749</u>	<u>(3,859,221)</u>	<u>7,207</u>	<u>(3,852,014)</u>
General Revenues:							
Property tax levied for:							
General purposes					\$ 1,239,761	-	1,239,761
Capital outlay					15,595	-	15,595
Statewide sales, services and use tax					294,498	-	294,498
Income surtax					83,851	-	83,851
Unrestricted state grants					1,843,538	-	1,843,538
Unrestricted investment earnings					2,243	195	2,438
Other					154,034	-	154,034
Total general revenues					<u>3,633,520</u>	<u>195</u>	<u>3,633,715</u>
Change in net assets					(225,701)	7,402	(218,299)
Net assets beginning of year					3,111,075	131,480	3,242,555
Net assets end of year					<u>\$ 2,885,374</u>	<u>138,882</u>	<u>3,024,256</u>

* This amount excludes the depreciation that is included in the direct expenses of the various programs.

See notes to financial statements.

Twin Cedars Community School District

Exhibit C

Balance Sheet
Governmental Funds

June 30, 2011

	General	Capital Projects	Nonmajor	Total
Assets				
Cash and pooled investments	\$ 889,026	247,767	158,788	1,295,581
Receivables:				
Property tax:				
Delinquent	28,541	381	1,754	30,676
Succeeding year	1,248,416	13,501	74,489	1,336,406
Accounts	2,601	-	-	2,601
Due from other funds	11,430	198	-	11,628
Due from other governments	125,871	94,796	-	220,667
Total assets	\$ 2,305,885	356,643	235,031	2,897,559
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 6,915	-	-	6,915
Salaries and benefits payable	412,334	-	-	412,334
Due to other governments	34,505	-	-	34,505
Due to other funds	198	9,807	-	10,005
Deferred revenue:				
Succeeding year property tax	1,248,416	13,501	74,489	1,336,406
Other	103,378	28,749	-	132,127
Total liabilities	1,805,746	52,057	74,489	1,932,292
Fund balances:				
Restricted for:				
Categorical funding	17,830	-	-	17,830
Management levy purposes	-	-	59,883	59,883
Student activities	-	-	36,799	36,799
School infrastructure	-	243,266	-	243,266
Physical plant and equipment	-	61,320	-	61,320
Debt service	-	-	63,860	63,860
Unassigned	482,309	-	-	482,309
Total fund balances	500,139	304,586	160,542	965,267
Total liabilities and fund balances	\$ 2,305,885	356,643	235,031	2,897,559

See notes to financial statements.

Twin Cedars Community School District

Exhibit D

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2011

Total fund balances of governmental funds (page 20) **\$ 965,267**

***Amounts reported for governmental activities in the
Statement of Net Assets are different because:***

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 2,547,708

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds. 94,334

Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds. (5,225)

Long-term liabilities, including bonds payable, early retirement, compensated absences and other postemployment benefits payable are not due and payable in the current year and, therefore, are not reported in the governmental funds. (716,710)

Net assets of governmental activities (page 18) **\$ 2,885,374**

See notes to financial statements.

Twin Cedars Community School District

Exhibit E

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2011

	General	Capital Projects	Nonmajor	Total
Revenues:				
Local sources:				
Local tax	\$ 1,221,659	337,444	71,830	1,630,933
Tuition	332,529	-	-	332,529
Other	97,303	748	130,717	228,768
Intermediate sources	3,000	-	-	3,000
State sources	2,315,885	13	56	2,315,954
Federal sources	255,540	-	-	255,540
Total revenues	4,225,916	338,205	202,603	4,766,724
Expenditures:				
Current:				
Instruction:				
Regular	1,824,321	10,317	19,117	1,853,755
Special	548,248	-	3,533	551,781
Other	602,339	-	143,480	745,819
	2,974,908	10,317	166,130	3,151,355
Support services:				
Student	124,964	-	853	125,817
Instructional staff	133,647	-	431	134,078
Administration	430,499	-	13,324	443,823
Operation and maintenance of plant	336,471	17,473	21,630	375,574
Transportation	216,793	53,770	13,942	284,505
	1,242,374	71,243	50,180	1,363,797
Non-instructional programs	-	-	752	752
Other expenditures:				
Facilities acquisition	-	105,190	-	105,190
Long-term debt:				
Principal	-	-	115,000	115,000
Interest and fiscal charges	-	-	21,592	21,592
AEA flowthrough	161,734	-	-	161,734
	161,734	105,190	136,592	403,516
Total expenditures	4,379,016	186,750	353,654	4,919,420
Excess (deficiency) of revenues over (under) expenditures	(153,100)	151,455	(151,051)	(152,696)
Other financing sources (uses):				
Sale of capital assets	5,831	-	-	5,831
Operating transfers in	-	-	137,744	137,744
Operating transfers out	-	(137,744)	-	(137,744)
Total other financing sources (uses)	5,831	(137,744)	137,744	5,831
Net change in fund balances	(147,269)	13,711	(13,307)	(146,865)
Fund balances beginning of year, as restated	647,408	290,875	173,849	1,112,132
Fund balances end of year	\$ 500,139	304,586	160,542	965,267

See notes to financial statements.

Twin Cedars Community School District

Exhibit F

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2011

Net change in fund balances - total governmental funds (page 22) **\$ (146,865)**

***Amounts reported for governmental activities in the
Statement of Activities are different because:***

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures was less than depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 139,289	
Depreciation expense	<u>(186,787)</u>	(47,498)

Certain revenues not collected for several months after year end are not considered available revenue and are deferred in the governmental funds.	9,844
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Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	115,000
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.	1,576
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Early retirement	(47,367)	
Compensated absences	(762)	
Other postemployment benefits	<u>(109,629)</u>	<u>(157,758)</u>

Change in net assets of governmental activities (page 19)	<u>\$ (225,701)</u>
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See notes to financial statements.

Twin Cedars Community School District

Exhibit G

Statement of Net Assets
Proprietary Fund

June 30, 2011

School
Nutrition**Assets**

Cash and cash equivalents	\$ 83,845
Inventories	7,135
Prepaid expenses	1,370
Capital assets, net of accumulated depreciation	<u>62,429</u>
Total assets	<u>154,779</u>

Liabilities

Due to other funds	1,623
Unearned revenue	252
Net OPEB liability	<u>14,022</u>
Total liabilities	<u>15,897</u>

Net Assets

Invested in capital assets	62,429
Unrestricted	<u>76,453</u>
Total net assets	<u><u>\$ 138,882</u></u>

See notes to financial statements.

Twin Cedars Community School District

Exhibit H

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund

Year ended June 30, 2011

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for service	<u>\$ 106,948</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	84,163
Benefits	19,401
Purchased services	8,964
Supplies	102,913
Depreciation	9,375
Total operating expenses	<u>224,816</u>
Operating loss	<u>(117,868)</u>
Non-operating revenues:	
State sources	2,525
Federal sources	122,550
Interest income	195
Total non-operating revenues	<u>125,270</u>
Increase in net assets	7,402
Net assets beginning of year	<u>131,480</u>
Net assets end of year	<u><u>\$ 138,882</u></u>

See notes to financial statements.

Twin Cedars Community School District

Exhibit I

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2011

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 107,568
Cash paid to employees for services	(96,625)
Cash paid to suppliers for goods and services	(97,910)
Net cash used by operating activities	<u>(86,967)</u>
Cash flows from non-capital financing activities:	
State grants received	2,525
Federal grants received	107,093
Net cash provided by non-capital financing activities	<u>109,618</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(10,113)
(Decrease) in due to other funds	(232)
Net cash used by capital and related financing activities	<u>(10,345)</u>
Cash flows from investing activities:	
Interest on investments	<u>195</u>
Net increase in cash and cash equivalents	12,501
Cash and cash equivalents beginning of year	<u>71,344</u>
Cash and cash equivalents end of year	<u><u>\$ 83,845</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (117,868)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	15,457
Depreciation	9,375
Decrease in accounts receivable	368
(Increase) in inventory	(1,480)
(Increase) in prepaid expenses	(10)
Increase in unearned revenue	252
Increase in other postemployment benefits	<u>6,939</u>
Net cash used by operating activities	<u><u>\$ (86,967)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2011, the District received \$15,457 of federal commodities.

See notes to financial statements.

Twin Cedars Community School District

Notes to Financial Statements

June 30, 2011

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Twin Cedars Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Bussey, Iowa, and the predominate agricultural territory of Marion and Mahaska Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Twin Cedars Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. The District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Marion County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in the following categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds. Combining schedules are also included for the Capital Project Fund accounts.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

The District reports the following major proprietary fund:

The Enterprise, School Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities, and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1 1/2% per month penalty for delinquent payments; is based on January 1, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2010.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment and intangibles are reported in applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 2,000
Buildings	10,000
Improvements other than buildings	10,000
Intangibles	25,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	5,000

Capital assets are depreciated/amortized using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20-50 years
Intangibles	5-10 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue consists of unspent grant proceeds and income surtax, as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and unspent grant proceeds.

Unearned Revenue – Unearned revenues are monies collected for meals that have not yet been served. The meal account balances will either be reimbursed, or will be used when meals are served. The meal account balances are reflected in the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2011. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity – In the governmental fund financial statements, fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in other spendable classifications.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or are imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **CASH AND POOLED INVESTMENTS**

Because the Board minutes did not document the maximum amount which may be kept on deposit in each depository, it is unclear if the District's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2011, the District had investments in the Iowa Schools Joint Investment Diversified Portfolio which are valued at an amortized cost of \$3,016, pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investment in the Iowa Schools Joint Investment Trust was rated Aaa by Moody's Investors Service.

(3) DUE FROM AND DUE TO OTHER FUNDS

The detail of interfund receivables and payables at June 30, 2011 is as follows:

Receivable Fund	Payable Fund	Amount
General	Capital Projects: Physical Plant and Equipment Levy	\$ 9,807
	Proprietary: School Nutrition	<u>1,623</u>
		<u>11,430</u>
Capital Projects: Physical Plant and Equipment Levy	General	<u>198</u>
Total		<u>\$ 11,628</u>

The above represents Nutrition Fund payroll which was accrued as a liability in the General Fund, and the reclassification of various transactions.

(4) INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	<u>\$ 137,744</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(5) CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2011 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 22,375	-	-	22,375
Total capital assets not being depreciated	22,375	-	-	22,375
Capital assets being depreciated:				
Buildings	3,374,877	-	-	3,374,877
Improvements other than buildings	1,123,836	39,338	-	1,163,174
Furniture and equipment	928,002	99,951	-	1,027,953
Total capital assets being depreciated	5,426,715	139,289	-	5,566,004
Less accumulated depreciation for:				
Buildings	2,160,784	58,301	-	2,219,085
Improvements other than buildings	255,949	51,948	-	307,897
Furniture and equipment	437,151	76,538	-	513,689
Total accumulated depreciation	2,853,884	186,787	-	3,040,671
Total capital assets being depreciated, net	2,572,831	(47,498)	-	2,525,333
Governmental activities capital assets, net	\$ 2,595,206	(47,498)	-	2,547,708
Business type activities:				
Furniture and equipment	\$ 110,556	10,113	-	120,669
Less accumulated depreciation	48,866	9,374	-	58,240
Business type activities capital assets, net	\$ 61,690	739	-	62,429

Depreciation expense was charged to the following functions:

Governmental activities:	
Instruction:	\$ 6,420
Other	
Support services:	5,169
Administration	58,471
Operation and maintenance of plant	58,426
Transportation	128,486
Unallocated	58,301
Total depreciation expense - governmental activities	\$ 186,787
Business type activities:	
Food service operations	\$ 9,374

(6) **LONG-TERM LIABILITIES**

Changes in long-term liabilities for the year ended June 30, 2011 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 285,000	-	65,000	220,000	70,000
Revenue bonds	260,000	-	50,000	210,000	50,000
Early retirement	11,472	52,632	5,265	58,839	13,644
Compensated absences	5,563	6,325	5,563	6,325	6,325
Net OPEB liability	111,917	109,629	-	221,546	-
Total	\$ 673,952	168,586	125,828	716,710	139,969

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Business type activities:					
Net OPEB liability	\$ 7,083	6,939	-	14,022	-

General Obligation Bonds

Details of the District's June 30, 2011 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of November 1, 1998			
	Interest Rates	Principal	Interest	Total
2012	4.40%	\$ 70,000	9,792	79,792
2013	4.45%	75,000	6,712	81,712
2014	4.50%	75,000	3,375	78,375
Total		\$ 220,000	19,879	239,879

Revenue Bonds

Details of the District's June 30, 2011 statewide sales, services and use tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of April 1, 2005			
	Interest Rates	Principal	Interest	Total
2012	3.40%	\$ 50,000	6,455	56,455
2013	3.40%	50,000	4,755	54,755
2014	3.50%	55,000	2,943	57,943
2015	3.60%	55,000	990	55,990
Total		\$ 210,000	15,143	225,143

The District has pledged future statewide sales, services and use tax revenues to repay the \$435,000 bonds issued in April 2005. The bonds were issued for the purpose of financing a portion of the costs of major school improvements. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through fiscal year 2015. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 20 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$225,143. For the current year, principal and interest paid on the bonds and total statewide sales, services and use tax revenues were \$58,155 and \$294,498, respectively.

The resolution providing for the issuance of the statewide sales, services and use tax revenue bonds includes the following provisions:

- a) All proceeds from the statewide sales, services and use tax shall be placed in a Revenue Account.
- b) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- c) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

The District did not comply with some of the revenue bond provisions during the year ended June 30, 2011. At times during the year, the District's balance in the Sinking Account was deficient.

Early Retirement

- A. In March 2009, the District approved a voluntary early retirement plan for employees. Eligible employees must have completed 34 years of full-time service to the District and must be between the ages of 55 and 57 on or before June 30 of the year in which the licensed employee wishes to retire. The application for early retirement was subject to approval by the Board of Education.

Upon retirement, the licensed employee is eligible to continue participation in the District's group insurance plan at the District's expense for three years by meeting the requirements of the insurer.

At June 30, 2011, the District has obligations to one participant with a total liability of \$5,969. Actual early retirement expenditures under this plan for the year ended June 30, 2011 totaled \$5,265. This early retirement plan was replaced by the early retirement plan as documented in the following paragraph.

- B. In March 2011, the District approved a voluntary early retirement plan for employees. This plan was only offered to employees retiring at the end of the 2010-2011 school year. Eligible employees must have completed 30 consecutive years of full-time service to the District and must be at least age 55 on or before June 30 of the year in which the licensed employee wishes to retire. The application for early retirement was subject to approval by the Board of Education.

Upon retirement, the licensed employee is eligible to continue participation in the District's group insurance plan at the District's expense for 62 months or until the employee is eligible for Medicare whichever comes first by meeting the requirements of the insurer.

At June 30, 2011, the District has obligations to two participants with a total liability of \$52,870. Actual early retirement expenditures under this plan for the year ended June 30, 2011 totaled \$0.

(7) **OPERATING LEASES**

The District has entered into operating leases for copy machines at \$1,189 per month. Future minimum lease payments in relation to these leases are as follows:

<u>Year Ended</u> <u>June 30,</u>	<u>Amount</u>
2012	\$ 15,457
2013	14,268
2014	14,268
2015	14,268
2016	3,567
	<u>\$ 61,828</u>

During the fiscal year, payments made under these lease agreements were \$14,759.

(8) **PENSION AND RETIREMENT BENEFITS**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.50% of their annual covered salary and the District is required to contribute 6.95% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$182,879, \$173,023 and \$167,362, respectively, equal to the required contributions for each year.

(9) **OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 80 active and 4 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with United Healthcare. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 132,000
Interest on net OPEB obligation	5,355
Adjustment to annual required contribution	(4,787)
Annual OPEB cost	132,568
Contributions made	(16,000)
Increase in net OPEB obligation	116,568
Net OPEB obligation beginning of year	119,000
Net OPEB obligation end of year	<u>\$ 235,568</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2011.

For the year ended June 30, 2011, the District contributed \$16,000 to the medical plan. Plan members eligible for benefits contributed \$5,116, or 24.2% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2011 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 132,000	9.8%	\$ 119,000
June 30, 2011	132,568	12.1%	235,568

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, the actuarial accrued liability was \$1.044 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1.044 million. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$2.692 million and the ratio of the UAAL to covered payroll was 38.8%. As of June 30, 2011, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2009 actuarial valuation date, the projected unit credit cost actuarial cost method was used. The actuarial assumptions includes a 4.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 11%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. The assumed rate of retirement was determined by attained age after becoming eligible to retire and continuing health coverage.

Projected claim costs of the medical plan are \$859 per month for retirees less than age 65 and \$650 per month for retirees who have attained age 65. The salary increase rate was assumed to be 3.5% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(10) RISK MANAGEMENT

Twin Cedars Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) AREA EDUCATION AGENCY

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the Area Education Agency. The District's actual amount for this purpose totaled \$161,734 for the year ended June 30, 2011 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(12) CATEGORICAL FUNDING

The District's restricted fund balance for categorical funding at June 30, 2011 is comprised of the following programs:

<u>Program</u>	
Beginning teacher mentoring and induction program	\$ 3,741
Educator quality, market factor	5,735
Educator quality, model core curriculum	1,966
Educator quality, professional development	<u>6,388</u>
Total	<u>\$ 17,830</u>

(13) SUBSEQUENT EVENTS

The District has evaluated subsequent events through January 31, 2012, which is the date the financial statements were available to be issued.

(14) ACCOUNTING CHANGE/RESTATEMENT

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

	<u>Capital Projects</u>	<u>Special Revenue, Physical Plant and Equipment Levy</u>
Balances June 30, 2010, as previously reported	\$ 217,278	73,597
Change in fund type classification per implementation of GASB Statement No. 54	<u>73,597</u>	<u>(73,597)</u>
Balances July 1, 2010, as restated	<u>\$ 290,875</u>	<u>-</u>

Required Supplementary Information

Twin Cedars Community School District

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2011

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts	Budget to Actual Variance
Revenues:					
Local sources	\$ 2,192,230	107,143	2,299,373	2,325,341	(25,968)
Intermediate sources	3,000	-	3,000	1,000	2,000
State sources	2,315,954	2,525	2,318,479	2,529,415	(210,936)
Federal sources	255,540	122,550	378,090	206,000	172,090
Total revenues	4,766,724	232,218	4,998,942	5,061,756	(62,814)
Expenditures/Expenses:					
Instruction	3,151,355	-	3,151,355	3,344,305	192,950
Support services	1,363,797	-	1,363,797	1,639,281	275,484
Non-instructional programs	752	224,816	225,568	438,924	213,356
Other expenditures	403,516	-	403,516	534,354	130,838
Total expenditures/expenses	4,919,420	224,816	5,144,236	5,956,864	812,628
Excess (deficiency) of revenues over (under) expenditures/expenses	(152,696)	7,402	(145,294)	(895,108)	749,814
Other financing sources, net	5,831	-	5,831	25,000	(19,169)
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses and other financing uses	(146,865)	7,402	(139,463)	(870,108)	730,645
Balances beginning of year	1,112,132	131,480	1,243,612	919,106	324,506
Balances end of year	\$ 965,267	138,882	1,104,149	48,998	1,055,151

See accompanying independent auditor's report.

Twin Cedars Community School District

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2011

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. The District did not amend the budget during the year.

During the year ended June 30, 2011, expenditures did not exceed the amounts budgeted.

Twin Cedars Community School District

Schedule of Funding Progress for the
Retiree Health Plan
(In Thousands)

Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ -	1,044	1,044	0.0%	\$ 2,655	39.3%
2011	July 1, 2009	-	1,044	1,044	0.0%	2,692	38.8%

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

See accompanying independent auditor's report.

Other Supplementary Information

Twin Cedars Community School District

Schedule 1

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2011

	Special Revenue			
	Management Levy	Student Activity	Debt Service	Total
Assets				
Cash and pooled investments	\$ 58,129	36,799	63,860	158,788
Receivables:				
Property tax:				
Delinquent	1,754	-	-	1,754
Succeeding year	74,489	-	-	74,489
Total assets	\$ 134,372	36,799	63,860	235,031
Liabilities and Fund Balances				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	\$ 74,489	-	-	74,489
Total liabilities	74,489	-	-	74,489
Fund balances:				
Restricted for:				
Management levy purposes	59,883	-	-	59,883
Student activities	-	36,799	-	36,799
Debt service	-	-	63,860	63,860
Total fund balances	59,883	36,799	63,860	160,542
Total liabilities and fund balances	\$ 134,372	36,799	63,860	235,031

See accompanying independent auditor's report.

Twin Cedars Community School District

Schedule 2

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2011

	Special Revenue			
	Management	Student	Debt Service	Total
	Levy	Activity		
Revenues:				
Local sources:				
Local tax	\$ 71,830	-	-	71,830
Other	2,255	128,460	2	130,717
State sources	56	-	-	56
Total revenues	74,141	128,460	2	202,603
Expenditures:				
Current:				
Instruction:				
Regular	19,117	-	-	19,117
Special	3,533	-	-	3,533
Other	4,066	139,414	-	143,480
Support services:				
Student	853	-	-	853
Instructional staff	431	-	-	431
Administration	13,324	-	-	13,324
Operation and maintenance of plant	21,630	-	-	21,630
Transportation	13,942	-	-	13,942
Non-instructional programs	752	-	-	752
Other expenditures:				
Long-term debt:				
Principal	-	-	115,000	115,000
Interest and fiscal charges	-	-	21,592	21,592
Total expenditures	77,648	139,414	136,592	353,654
Excess (deficiency) of revenues over (under) expenditures	(3,507)	(10,954)	(136,590)	(151,051)
Other financing sources (uses):				
Operating transfers in	-	-	137,744	137,744
Total other financing sources (uses)	-	-	137,744	137,744
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(3,507)	(10,954)	1,154	(13,307)
Fund balances beginning of year, as restated	63,390	47,753	62,706	173,849
Fund balances end of year	\$ 59,883	36,799	63,860	160,542

See accompanying independent auditor's report.

Twin Cedars Community School District

Schedule 3

Combining Balance Sheet
Capital Project Accounts

June 30, 2011

		Capital Projects		
		Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Assets				
Cash and pooled investments	\$	177,219	70,548	247,767
Receivables:				
Property tax:				
Delinquent		-	381	381
Succeeding year		-	13,501	13,501
Due from other funds		-	198	198
Due from other governments		66,047	28,749	94,796
Total assets	\$	243,266	113,377	356,643
Liabilities and Fund Balances				
Liabilities:				
Due to other funds	\$	-	9,807	9,807
Deferred revenue:				
Succeeding year property tax		-	13,501	13,501
Other		-	28,749	28,749
Total liabilities		-	52,057	52,057
Fund balances:				
Restricted for:				
School infrastructure		243,266	-	243,266
Physical plant and equipment		-	61,320	61,320
Total fund balances		243,266	61,320	304,586
Total liabilities and fund balances	\$	243,266	113,377	356,643

See accompanying independent auditor's report.

Twin Cedars Community School District

Schedule 4

Combining Statement of Revenues, Expenditures
and Changes in Fund Balances

Capital Project Accounts

Year ended June 30, 2011

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ 294,498	42,946	337,444
Other	748	-	748
State sources	-	13	13
Total revenues	295,246	42,959	338,205
Expenditures:			
Current:			
Instruction:			
Regular	-	10,317	10,317
Support services:			
Operation and maintenance of plant	-	17,473	17,473
Transportation	44,203	9,567	53,770
Other expenditures:			
Facilities acquisition	87,311	17,879	105,190
Total expenditures	131,514	55,236	186,750
Excess (deficiency) of revenues over (under) expenditures	163,732	(12,277)	151,455
Other financing sources (uses):			
Operating transfers out	(137,744)	-	(137,744)
Total other financing sources (uses)	(137,744)	-	(137,744)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	25,988	(12,277)	13,711
Fund balances beginning of year, as restated	217,278	73,597	290,875
Fund balances end of year	\$ 243,266	61,320	304,586

See accompanying independent auditor's report.

Twin Cedars Community School District

Schedule 5

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2011

Account	Balance Beginning of Year	Revenues	Expenditures	Intrafund Transfers	Balance End of Year
H.S. Tag	\$ 1,083	966	1,648	-	401
Biology	178	588	719	-	47
Honor Society	235	90	325	-	-
Co-Ed Athletics	709	17,487	16,145	-	2,051
Boys Athletics	10,234	22,710	26,163	-	6,781
Boys Basketball	288	-	-	-	288
Football	4	1,175	612	-	567
Baseball	4	1,319	1,171	-	152
Girls Athletics	6,370	15,439	21,406	-	403
Softball	672	1,601	1,748	-	525
Activity Tickets	602	-	1	-	601
Boys Track	250	540	270	-	520
Girls Basketball	269	9,084	8,809	-	544
Volleyball	423	2,589	1,581	-	1,431
Pep Club	968	377	667	-	678
Yearbook	9,300	7,697	5,480	-	11,517
FFA	3,070	20,253	20,082	-	3,241
H.S. Student Council	595	461	994	-	62
Elem. Student Council	17	3,277	2,072	-	1,222
Elem. Fundraisers	159	3,756	3,547	-	368
Technology Club	1,057	2,636	3,176	-	517
Archery Club	100	-	-	-	100
Science Club	194	-	97	-	97
H.S. Music	276	-	140	-	136
H.S. Colorguard	8	-	-	-	8
Class of 2010	3,027	-	650	(2,377)	-
Class of 2011	4,087	7,947	13,271	2,377	1,140
Class of 2012	1,162	1,768	2,876	-	54
Class of 2013	128	-	-	-	128
Class of 2014	145	-	-	-	145
Art Club	282	370	622	-	30
Cheerleaders	808	3,839	2,475	-	2,172
Drill Team	1,049	2,491	2,667	-	873
Total	\$ 47,753	128,460	139,414	-	36,799

See accompanying independent auditor's report.

Twin Cedars Community School District

Schedule 6

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Eight Years

	Modified Accrual Basis							
	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:								
Local sources:								
Local tax	\$ 1,630,933	1,510,636	1,519,191	1,461,397	1,478,546	1,458,722	1,397,579	1,205,560
Tuition	332,529	405,005	353,033	403,511	424,002	408,503	419,604	363,672
Other	228,768	175,391	201,177	285,813	394,363	277,689	180,712	166,176
Intermediate sources	3,000	6,000	1,000	1,000	4,000	-	259	3,677
State sources	2,315,954	2,010,470	2,449,019	2,363,267	2,182,695	2,241,092	2,033,027	1,899,892
Federal sources	255,540	444,351	225,015	177,260	114,229	168,480	187,471	180,871
Total	<u>\$ 4,766,724</u>	<u>4,551,853</u>	<u>4,748,435</u>	<u>4,692,248</u>	<u>4,597,835</u>	<u>4,554,486</u>	<u>4,218,652</u>	<u>3,819,848</u>
Expenditures:								
Instruction:								
Regular	\$ 1,853,755	1,604,908	1,720,238	1,617,640	1,559,467	1,461,801	1,666,724	1,535,124
Special	551,781	636,689	611,392	570,309	452,342	497,621	438,539	406,274
Other	745,819	875,115	719,297	655,178	574,753	620,710	540,050	416,960
Support services:								
Student	125,817	108,059	150,045	133,446	110,566	47,096	75,559	99,427
Instructional staff	134,078	68,184	71,986	52,360	74,889	144,663	56,041	70,516
Administration	443,823	411,122	420,349	419,711	416,607	372,084	310,662	405,059
Operation and maintenance of plant	375,574	343,185	406,645	426,512	389,404	276,500	231,380	252,735
Transportation	284,505	284,383	393,309	313,953	346,069	228,280	292,898	277,058
Non-instructional programs	752	1,019	875	890	892	25,383	19,896	782
Other expenditures:								
Facilities acquisition	105,190	333,367	148,254	204,637	324,412	389,650	160,561	29,941
Long-term debt:								
Principal	115,000	110,000	105,000	151,355	97,253	57,145	52,043	46,946
Interest and other charges	21,592	25,919	29,932	36,232	40,008	39,148	30,080	31,063
AEA flowthrough	161,734	161,191	151,211	147,150	137,266	134,159	130,759	131,635
Total	<u>\$ 4,919,420</u>	<u>4,963,141</u>	<u>4,928,533</u>	<u>4,729,373</u>	<u>4,523,928</u>	<u>4,294,240</u>	<u>4,005,192</u>	<u>3,703,520</u>

See accompanying independent auditor's report.

PEAK & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS
1370 NW 114TH ST., SUITE 205
CLIVE, IA 50325

(515) 277-3077

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Board of Education of
Twin Cedars Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Twin Cedars Community School District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 31, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Twin Cedars Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Twin Cedars Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Twin Cedars Community School District's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and another deficiency we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A), (C) and (D) to be material weaknesses.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as item (B) to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Twin Cedars Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and other matters, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Twin Cedars Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Twin Cedars Community School District's responses and accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Twin Cedars Community School District and other parties to whom the Twin Cedars Community School District may report and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Twin Cedars Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Peak & Co., LLP
Certified Public Accountants

January 31, 2012

Twin Cedars Community School District

Schedule of Findings

Year ended June 30, 2011

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are sometimes all done by the same person. Also, vouchers are processed and checks are prepared by the same person.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will continue to review our procedures and implement additional controls where possible.

Conclusion – Response acknowledged. The District could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- (B) Fixed Assets – Fixed assets were not periodically counted and reconciled to the fixed asset listing by an independent person. Also, a perpetual record of fixed assets is not kept. Generally accepted accounting principles require an accurate fixed asset listing be maintained.

Recommendation – To provide additional control over the proper recording of fixed assets, fixed assets should be periodically counted and reconciled to the fixed asset listing by a person who does not have custody of the fixed assets. Also, a perpetual fixed asset listing should be kept.

Response – We will review this situation.

Conclusion – Response accepted.

- (C) Financial Reporting – During the audit, we identified material amounts of receivables and payables not recorded in the District's financial statements. Adjustments were subsequently made by the District to properly include these amounts in the financial statements

Recommendation – The District should implement procedures to ensure all receivables and payables are identified and included in the District's financial statements

Response – We will double check these in the future to avoid missing any receivables and payables transactions.

Conclusion – Response accepted.

Twin Cedars Community School District

Schedule of Findings

Year ended June 30, 2011

- (D) Preparation of Full Disclosure Financial Statements – Internal controls over financial reporting include the actual preparation and review of financial statements, including footnote disclosure, for external reporting, as required by generally accepted accounting principles. Twin Cedars Community School District does not have the internal resources to prepare the full-disclosure financial statements required by GAAP for external reporting. While this circumstance is not uncommon for most governmental entities, it is the responsibility of management and those charged with governance to prepare reliable financial data, or accept the risk associated with this condition because of cost or other considerations.

Recommendation – We recognize that with a limited number of office employees, gaining sufficient knowledge and expertise to properly select and apply accounting principles in preparing full-disclosure financial statements for external reporting purposes is difficult. However, we recommend that District officials continue to review operating procedures and obtain the internal expertise needed to handle all the aspects of external financial reporting, rather than to rely on external assistance.

Response – We recognize our limitations; however, it is not fiscally responsible to add additional staff for this purpose.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Twin Cedars Community School District

Schedule of Findings

Year ended June 30, 2011

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Expenditures for the year ended June 30, 2011 did not exceed the certified budget amounts.
- (2) Questionable Disbursements – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- (4) Business Transactions – No business transactions between the District and District officials or employees were noted.
- (5) Bond Coverage – Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- (6) Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not. For the invoices paid on June 30, 2011, there was insufficient documentation the date the Board President approved the expenditures for advance payment in accordance with the District's policy. A specific reason for holding a closed session was not documented in the Board Minutes as required by Chapter 21.5 of the Code of Iowa. The Board does not document their approval for transfers which take place between funds. One Board meeting minutes, and related claims, were not timely published in accordance with Chapter 279.35 of the Code of Iowa.

Recommendation – Sufficient documentation should be maintained to evidence proper Board President approval of expenditures paid in advance of the full Board approval. Procedures should be implemented to ensure compliance with Chapter 21.5 of the Code of Iowa in relation to closed sessions. In addition, the Board should approve all interfund transfers. Also, the Board minutes should be published within two weeks of each meeting.

Response – We will implement these recommendations.

Conclusion – Response accepted.

- (7) Certified Enrollment – No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
- (8) Supplementary Weighting – Variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

For a shared teacher, the District claimed 3.84 as supplementary weighting. However, the District should have only claimed 3.15 as supplementary weighting

Recommendation – The District contact the Iowa Department of Education to resolve this matter.

Response – We will contact the Iowa Department of Education.

Conclusion – Response accepted.

Twin Cedars Community School District

Schedule of Findings

Year ended June 30, 2011

- (9) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and District's investment policy were noted, except that the Board minutes did not document the maximum amount which may be kept on deposit in each depository.

Recommendation – To be in compliance with Chapter 12C of the Code of Iowa, the Board should implement procedures to ensure the Board minutes document the maximum amount which may be kept on deposit in each depository.

Response – We will implement this recommendation.

Conclusion – Response accepted.

- (10) Certified Annual Report – The Certified Annual Report was timely certified to the State of Iowa. However, we noted material variances in the amounts reported.

Recommendation – The District should contact the Iowa Department of Education to resolve this situation.

Response – We have contacted the Department of Education and will make adjustments through the certified annual report for the next fiscal year.

Conclusion – Response accepted.

- (11) Categorical Funding – No instances were noted of categorical funding being used to supplant rather than supplement other funds. However, in some cases the District did not record revenues and expenditures related to categorical funding until the end of the fiscal year. The Department of Education requires that all categorical funding be recorded to specific account codes. Since the District did not record categorical funding to specific account codes during the year, it appears the District is not in compliance with the Department of Education requirements.

Recommendation – The District should consult the Iowa Department of Education regarding corrective action to be taken.

Response – We will implement this recommendation.

Conclusion – Response accepted.

- (12) Statewide Sales, Services and Use Tax – No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenues. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2011, the following information includes the amounts the District reported for statewide sales, services and use tax revenue in the District's CAR including adjustments identified during the fiscal year 2011 audit.

Twin Cedars Community School District

Schedule of Findings

Year ended June 30, 2011

Beginning balance		\$ 217,278
Revenues:		
Statewide sales, services and use tax	\$ 294,498	
Interest on investments	<u>748</u>	<u>295,246</u>
		512,524
Expenditures/transfers out:		
School infrastructure construction		
Equipment	\$ 87,311	
Transfers to other funds:	<u>44,203</u>	
Debt service fund	<u>137,744</u>	<u>269,258</u>
Ending balance		<u>\$ 243,266</u>

For the year ended June 30, 2011, the District reduced the following levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa:

	Rate of Levy	
	Reduction	Property
	Per \$1,000	Tax
	of Taxable	Dollars
	Valuation	Reduced
Debt service levy	\$ 1.58	\$ 137,744

- (13) Disbursements – While the Board approved the list of bills, the Board President does not consistently sign the list of bills approved. Without this, there is less assurance that the actual bills paid by the District were approved by the Board. The Board Secretary does not sign all checks as required by Chapter 291.8 of the Code of Iowa.

Recommendation – The Board President should sign the list of approved bills, with a list retained by the District. Also, the Board Secretary should sign all checks as required by Chapter 291.8 of the Code of Iowa.

Response – We will review this area and take action as necessary.

Conclusion – Response accepted.

- (14) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and the back of each cancelled check. In some cases, the District retains cancelled checks through electronic image, but in other cases the District did not obtain an image of the back of each cancelled check as required.

Recommendation - The District should obtain and retain an image of both the front and back of each cancelled check as required.

Response – We will implement this recommendation.

Conclusion – Response accepted.

Twin Cedars Community School District

Schedule of Findings

Year ended June 30, 2011

- (15) Activity Fund Fundraisers – For Activity Fund fundraisers, there are no documented procedures in place to reconcile the cash receipts to the amount of money that should have been collected based on the quantity of merchandise purchased for resale or gross profit percentage.

Recommendation – The District should implement procedures for Activity Fund fundraisers which documents the reconciliation of actual monies collected to the amount of money which should have been collected based on the quantity of merchandise purchased for resale or gross profit percentages.

Response – We will implement this recommendation.

Conclusion – Response accepted.

- (16) Interfund Loans – It does not appear the District has met the Department of Education requirements as outlined in a Declaratory Order Adm. Doc. #4672 in relation to the proper procedure for handling, recording and repayment of interfund loans.

Recommendation – The District should implement procedures to ensure the Department of Education requirements are met in relation to the handling, recording and repayment of interfund loans.

Response – We will implement this recommendation.

Conclusion – Response accepted.

- (17) Outstanding Checks – The District has several outstanding checks over one year old on its bank reconciliations. Chapter 556 of the Code of Iowa requires that these checks be turned over to the State Treasurer as unclaimed property.

Recommendation – The District turn over old outstanding checks to the State Treasurer as required by the Code of Iowa.

Response – We will implement this recommendation.

Conclusion – Response accepted.

- (18) Revenue Bonds – In some months, the required monthly transfers from the revenue account to the sinking account were not made by the District.

Recommendation – The District should make the monthly transfers to the sinking account as required by the bond resolution.

Response – We will begin making transfers to the sinking account on a monthly basis.

Conclusion – Response accepted.

Twin Cedars Community School District

Schedule of Findings

Year ended June 30, 2011

- (19) Financial Condition – The Capital Projects, Physical Plant and Equipment Levy Fund balance is in excess of one year's expenditures. As a result, the balance in this fund may be excessive.

Recommendation – The District should consider the necessity of maintaining the substantial balance in this fund and, where financially feasible, consider reducing the balance in the Capital Projects, Physical Plant and Equipment Levy Fund.

Response – We will continue to monitor this fund and investigate alternatives to return this fund to a reasonable level.

Conclusion – Response accepted.

- (20) General Obligation Bonds – The District is currently paying interest on General Obligation Bonds, with an interest rate between 4.4%-4.5%. The District currently has the funds available to pay off these bonds. The interest rate earned by the District on money in the bank is currently around .2%. The District would save a considerable amount of bank interest expense if these bonds were paid off.

Recommendation – The District consider paying off the General Obligation Bonds.

Response – We will take the above under advisement.

Conclusion – Response accepted.

- (21) Payroll – In several cases, the contract amounts paid to the teachers were different than the agreed upon amounts as documented in the master agreement with the teachers. In one case, the amount paid for a coaching position was different than the compensation amount as noted on the contract. Instances were also noted where there was not any documented support for employee payroll deductions.

Recommendation – The District ensure that amounts paid to employees agrees with the master contract and to the individual contract amounts. In addition, the District should implement procedures to ensure there is adequate support for employee payroll withholdings.

Response – Most of the above issues were the result of a refiguring the teacher quality money at the last minute. As a result, all of the related paperwork did not get properly changed. We will also implement the above recommendations.

Conclusion – Response accepted.

- (22) Miscellaneous – It does not appear that the District has procedures in place to ensure that all claim forms filed with the State of Iowa for the nutrition program are properly completed. As a result, we identified over \$3,000 in monies due to the District from the State of Iowa for the nutrition program that were not claimed by the District.

In addition, it does not appear that the District has procedures in place to ensure the cost of shared teacher with a neighboring District is properly computed. As a result, it appears the District overpaid a neighboring District by approximately \$6,000 for shared teacher costs.

These conditions were not known by the District until we brought it to their attention.

The District paid sales tax on one invoice. In addition, the District paid interest on a credit card.

Twin Cedars Community School District

Schedule of Findings

Year ended June 30, 2011

Recommendation – Procedures should be implemented to ensure all claim forms for the nutrition program are properly completed, and that the amount paid for shared teacher costs are properly computed. In addition, the District should not pay sales tax on invoices, and that credit card charges are paid timely so that interest does not accrue on the credit card balances.

Response – We will implement these recommendations.

Conclusion – Response accepted.

- (23) Vehicles/Fuel – The District has a gas barrel and two diesel fuel barrels to be used for its vehicle and equipment fleet. The District attempts to maintain a perpetual record of gas and diesel fuel. However, it appears that this perpetual record of fuel is inaccurate, and that no comparison is made between the fuel balances as recorded on the perpetual records with the actual number of gallons in the fuel tanks at any one time.

The District pays additional compensation to an employee formileage in relation to a shared teaching arrangement with another District. However, this additional compensation is handled through payroll, and the District and the employee currently pay income and/or payroll taxes on this additional compensation. If the District and the employee establish this travel arrangement under an accountable plan, the District and the employee would save over a thousand dollars a year in taxes.

Recommendation – The District periodically compare the balances as recorded on the perpetual fuel records with the actual gallons of fuel on hand, and any significant differences should be investigated. The District should also establish travel arrangements under an accountable plan in accordance with IRS regulations.

Response – We will take the above under advisement.

Conclusion – Response accepted.